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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

AUSTRALIA

Economic Report

August 17, 1950

Economic Department
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Annex VI

TABLE OF CONTENTS

AUSTRALIA
Basic Statistics

Area: 2,974,581 square miles

Population (1950): 8.0 million (Estimated)

Currency:

Unit: Australian Pound (sign £A)

Exchange Rate: £A1 = £0.8 = $2.228

Principal Commodities Traded (1949/50)

Exports		Imports	
Wool and sheepskins	52%	Metals, Machinery & Vehicles	41%
Wheat and flour	15%	Textile products	16%
Meat	6%	Raw Materials (excl. iron and steel)	11%
Butter	4%	Petroleum Products	9%

Trade Statistics (Year 1949/50)

	£A Million	Equiv. to U.S. Million
Imports (f.o.b.)	536	1,305
Exports (f.o.b.)	604	1,455
	+ 68	+ 150

Balance of Payments

	Current Balance	Private Capital Movements 1/
	(£A million)	
1948-49	+ 47	+ 130
1949-50	- 10	+ 208

1/ Includes errors and omissions in the balance of payments estimates

Price and Wage Indexes (1937 = 100)

	Jan. 1949	Jan. 1950	May 1950
Wholesale Prices	183	207	211
Export Prices	310	373	359 1/
Import Prices	195	226	229
Wages (Hourly rates)	197 1/	213 1/	

1/ March

National Income (1949/50)

£A2,220 million, or $4.95 billion (620 per capita)

Budget[1] (In £A million)

	1947-8	1948-9	1949-50 (Provisional)
Public Investment	99	137	190
Other Public Expenditures	337	406	431
Current Revenue	460	535	574
Surplus (+) or Deficit (-)	+ 24	- 8	- 47
Net borrowing from the public	46	93	62
Net redemption of Treasury Bills	70	85	15

1/ Comprises consolidated accounts of all public authorities

Foreign Debts and Balances

	Foreign Debt at June 30, 1950 $ Million	Sterling Balances at June 30, 1950 $ Million	£ Million
Dollar Debt	214		
Sterling Debt	1,008	1,355	485
Total	1,222		

Gold and Foreign Assets at June 30, 1950 (Including sterling balances)

	$ Million
Gold	88
Foreign Exchange	1,360
Total	1,448

AUSTRALIA

Economic Report

Introduction

1. Although the area of Australia is nearly 3 million square miles, or roughly the size of the continental United States, the central and western parts of the country consist largely of sandy and stony desert of little economic value. In the east and southeast, however, water is more plentiful and the land is well suited to agriculture, particularly sheep raising. There are substantial mineral resources, among them gold, silver, copper, lead and zinc, iron, and coal in large quantities.

2. Australia is still a relatively new country and her pattern of development is following that of the United States. In 1880 her population of $2\frac{1}{4}$ million persons was predominantly agricultural. Since this date, she has, with occasional interruptions such as during the thirties, consistently been receiving immigrants on a large scale. The population doubled by 1910, and in the last forty years has practically doubled again to reach 8 million. At the same time Australia has been developing her own industries, a process which has been accelerated during and since World War II. Manufacturing employment has increased by about 60% since 1939; indeed, with over one-third of her wage and salary earners employed in factories, Australia has become one of the most highly industrialized countries in the world. While Australian exports have remained primarily wool, wheat and flour, meat, dairy products, gold and non-ferrous metals, imports have come to consist more and more of equipment and raw materials for agriculture and industry, rather than finished consumer goods.

3. Such rapid economic development has required heavy investment from external sources. Before the war, notably in the twenties, Australia imported capital on a large scale in the form of immigrants' funds, direct investments, and of governmental, semi-governmental and municipal loans. By 1939, she had incurred a foreign debt equivalent to over $2.4 billion, $2.2 billion in sterling and the remainder in dollars, and her net payments abroad for dividends, interest and profits amounted to the equivalent of some $150 million per annum.

4. The carrying of this debt proved very burdensome during the depression years in the 'thirties, especially in view of Australia's concentration on exports of agricultural products, demands for which have been subject to wide cyclical fluctuations. Thus, in 1930/31 the value of her exports fell sharply and external interest payments alone absorbed over 40% of the proceeds. By 1938/39, however, the position had improved to the point where such payments absorbed only 23%. Throughout these difficult years, service was maintained on the external debt without interruption.

5. Between 1943 and 1950, major changes have taken place in Australia's international capital position. Heavy expenditures by the U.K. and U.S. in Australia for supplies and munitions for Allied forces, followed after the war by a large expansion of Australian exports at extremely favorable prices, resulted in large balance of payments surpluses. Moreover, there has been a substantial private capital inflow since the war, partly the result of heavy immigration. As a result, Australia has been able to reduce its foreign debt to the present level of about $1.22 billion (of which $1.01 billion is sterling), and external interest payments now absorb only 3% of export proceeds. She has also steadily increased her holdings of gold and foreign exchange (again mainly sterling) from the equivalent of $356 million at the end of 1943 to $1.45 billion at mid-1950. Some of the sterling balances are the result of recent private capital inflows which represent spec-

ulation on a possible revaluation of the Australian pound and could, under certain circumstances, flow back to the U.K. Even allowing for this and the fact that a small part is informally blocked under an understanding reached in September 1947, it is clear that these balances (at present £ 485 million) offset to a considerable extent Australia's external sterling debt of £ 360 million.

Relations with the Sterling Area

6. Australia has long held the greater part of her international reserves in the form of sterling and is a full member of the sterling area. The practice of keeping reserves in the form of balances in London developed naturally from the traditional close economic and financial relationships between Australia and the United Kingdom. About two-fifths of Australia's total trade is conducted with the United Kingdom, over four-fifths of its foreign debt is payable in London, and the greater part of foreign private investment in Australia is British owned. Non-sterling currencies are usually held only as working balances. In accordance with the practice of the sterling area countries, Australia has always been accustomed to sell her earnings of dollars to the United Kingdom against payment in sterling and in turn has used sterling balances to buy from the central reserves of the area the dollars with which to make dollar payments.

7. In practice, since Australia's export trade is directed so largely toward the U.K., continental Europe, and the rest of the sterling area, she has always run a payments deficit with the dollar area financed from surpluses with the rest of the world. This basic pattern has been carried over to the post-war years, and although Australia has exported $130-175 million per annum to the dollar area during this period and has sold over $30 million of gold annually, heavy dollar imports have necessitated additional purchases averaging some $80 million annually from the sterling area dollar reserves.

8. Although the amount of Australian drawings on these reserves is not sub-

ject to any formal agreement, Australia has a broad understanding with the United Kingdom that the sterling area will meet Australia's net requirements of dollars provided Australia continues to cooperate in exercising appropriate economy in dollar expenditures. Following the recommendations of the Commonwealth Prime Ministers' Conference of July 1949, Australia has agreed to reduce its dollar expenditure on imports by about 25%. In terms of recorded imports f.o.b. this involv a reduction from the 1948/49 level of $174 million to a level of about $142 million per annum. Also, in September 1947, at the request of the U.K., Australia agreed to sell her current gold production to the Bank of England for the twelve months to June 1948, and this arrangement, though reviewed in subsequent years, has remained in operation ever since. In effect, Australia can expand its dollar imports under present arrangements only by borrowing dollars abroad.

Recent Economic Trends

9. Since the war, migration to Australia has been building up to record-breaking proportions and the country is embarking on another period of rapid economic development. Some 370,000 "permanent" migrants have arrived since the beginning of 1947, nearly 200,000 of them in the last twelve months. The current rate is twice as great, in proportion to Australia's population, as the peak movements from Europe to the U.S.A. around the turn of the century. The annual population increase has now reached 3½%. Investment requirements, which in any case are large on account of wartime backlogs and growing industrialization, are, therefore, augmented by the investment in new productive capacity and heavy overheads (housing, utilities and services) required to assimilate this large influx of immigrants. The strains on the economy of this rapid development have evidenced themselves in shortages of labor, materials and equipment, not to mention housing, frequent power blackouts in the main industrial centers, transport hold-ups and many other similar difficulties which impair the productivity and flexi-

bility of the economy as a whole.

10. Because of the increasing availability of supplies in soft currency areas, imports have recently shown a great increase; in the first half of 1950 they were in value nearly 40% higher and in volume 20% higher than in the same period of 1949. The surplus of about $150 million in the overall balance of payments in the year 1948/49 was, therefore, transformed into a small deficit of just over $20 million in 1949/50. The deficit with the dollar area was, however, reduced from $90 million to under $70 million, mainly as a result of increased exports, but also because of the above-mentioned agreement to limit drawings on the sterling area's dollar reserves. Such drawings fell from $73 million in 1948/49 to $10-15 million in 1949/50, but, since it was not possible to reduce dollar imports at once to the new level of $140 million, Australia drew $20 million from the I.M.F. in the last quarter of 1949.

11. Strains on Australia's resources brought about by heavy immigration and rapid economic development have had their effect not only on her balance of payments but also on her internal financial situation. Although government expenditure has been absorbing some 28% of the national income, it has been more than covered by revenue and net borrowing from the public. The main inflationary pressures have been generated by the payments surplus which prevailed until recently, the effects of the devaluation and ever-increasing export prices, and private investment financed partly by credit expansion. The amount of credit advanced to the private sector by the commercial banks has risen from £A 242 million at the end of 1945 to £A 569 million in May 1950. During the same period the money supply has increased from £A 649 million to £A 1.1 billion. The concurrent strong upward price movement has been aggravated by the introduction of the forty-hour week in 1948 while maintaining weekly wages unchanged, and by the linking of wages to a cost of living index. Wholesale prices rose 35% between 1945 and the middle of

1949 and have risen by 15% in the last 12 months. Hourly wage rates have increased by nearly 50% since 1945.

12. In view especially of the high prices being obtained for Australian exports, there was a widespread expectation that in the course of the international currency adjustments last fall, the Australian pound, which is presently at a discount of 20%, would be brought up to parity with the pound sterling. However, elements in the Australian economy favor a relatively low rate, including agricultural interests seeking high export prices and industrial interests desiring protection from foreign competition. Moreover, the continuing rise in the Australian price level makes revaluation less likely as time goes on. Also, the high profits which farmers have been reaping from devaluation have recently been reduced by the imposition of a 7½% levy on wool.

The Development Program

The Nature of the Program

13. The Commonwealth Government has formulated a comprehensive policy designed to place the Australian economy in a position to carry out further rapid expansion with maximum efficiency and minimum stress. This policy, based upon maintaining the present large rate of immigration for at least another decade, centers upon the carrying out of an enlarged investment program, designed to make possible the balanced expansion of production in various lines. For this purpose a Ministry of National Development has been established to work out plans in collaboration with State Governments. In order to combat more immediate difficulties, emergency measures are being taken to import, often at considerable cost and aided by Government subsidies, special items to break some of the worst supply bottlenecks. Under this program coal, steel, and even prefabricated houses are being obtained from Europe. Steps are also being taken to concentrate man-

power at points where labor shortages are most acute, and especially where an important contribution can be made to expanding output of basic industrial supplies.

14. The primary aims of the Commonwealth's development program are:

a) a general expansion of most types of productive activity in order to take care of the needs, at undiminished or rising living standards, of a population expected to increase by about 17% during the next five years.

b) in particular, an expansion of the output and export of the foodstuffs and raw materials such as wool, meat, hides, dairy products, wheat, fruits and base metals, for the production of which conditions in Australia are particularly well suited.

The development plans are not therefore concentrated on industrialization. The present phase of development is intended to maintain, within the framework of a rapidly growing population, an appropriate balance in the allocation of Australia's manpower and productive resources as among the different branches of economic activity.

15. Australia is essentially a private enterprise economy, in which economic development is in large measure the outcome of innumerable decisions by private firms and individuals. It is therefore impossible for the Government to lay down an over-all investment program for years ahead and see that it is adhered to. Nevertheless, the Government is in a position to exercise a powerful influence towards making its development policies effective.

16. Public capital expenditure is itself a considerable proportion of total investment. Although in this field the State Governments are directly responsible for a large part, plans and priorities can be closely influenced by the Commonwealth Government through its co-operation and close financial relationships with the State Governments. With respect to private capital expenditure, the Commonwealth can and does exercise, through direct and indirect means, a major influence over the scale and directions of development. For example, the power to grant or

withhold import licenses for dollar goods is an important instrument of control. Other official policies affecting private investment decisions include the immigration program itself, banking and credit controls, fiscal, monetary and commercial measures, informal consultation with industry, and the very significant indirect consequences of public capital expenditure in providing basic facilities for private investment in particular areas and industries.

17. Although in the nature of the case no precise estimates can be made, the Australian Government considers that the development program will involve a rate of gross public and private investment of the order of £A 750 million a year, roughly 20% higher than the level of £A 620 million attained in 1949/50. Though the increase in the rate of investment will vary from industry to industry, this level may be approached in the aggregate quite quickly. A rise to £A 700 million in 1950/51 and finally to £A 750 million in 1951/52 might well be attained. If the gross national product is assumed to grow at the rate of 5% per annum, gross investment of £A 750 million in 1951/52 would be equivalent to 27% of the gross national product. A rough estimate indicates that over the five years of the program about one quarter of the additional investment will be made possible by resources obtained from abroad.

18. Since prices in Australia have been rising at the rate of 10% or more per annum over the past three years, the problem arises whether a development program on the scale intended can be achieved without endangering internal financial stability. The Commonwealth Government believes that this can be done and it is resolved not to allow the fundamental stability of the Australian economy to be disrupted by inflationary pressure. Much of the pressure which has developed recently has been due to the attempt to carry out a great development program, not only without external assistance but simultaneously with the running of an exter-

nal surplus and the accumulation of balances abroad. With the aid of freer access to dollar goods, and with increasing availabilities from soft currency sources, it is expected that this situation can shortly be corrected.

19. However, even if the expansion of imports makes a sufficient contribution to the resources available for the investment program which Australia contemplates, the danger may still remain that private enterprise may strive to push the level of investment beyond the safety margin. In this event the remedy must lie in an appropriate exercise of the extensive financial and economic powers of the Commonwealth. The Australian Government has made particular reference to the following points:

(a) The Commonwealth Government is the major taxing authority and provides by way of grant the bulk of the revenue of the State Governments. In recent years, it has pursued a rigorous budgetary policy, in the course of which it has not only financed substantial expenditure on capital works from revenue, but made significant progress in the redemption of debt. This policy will be continued.

(b) The banking system in Australia is under very close Central Bank control. The powers of the Central Bank include the "freezing" of the cash reserves of the Trading Banks under a system of special deposits with the Central Bank, and the issuance of instructions regarding the extent and directions of bank advances.

(c) There is close co-operation in the planning of capital expenditure between the Commonwealth and State Governments, and the Ministry of National Development is now taking steps to see that the starting of new works projects is more closely related to the availability of resources for their execution without inflationary pressure. Further, all Government and Semi-Government borrowing comes under review by the Loan Council, which is a Federal body with Constitutional powers, in

which the Commonwealth Government has a predominant voice. Subject to the qualification that internal stability is not upset by a further upsurge of international prices - a factor which has been of considerable importance in the recent past - the Australian Government is confident that the instruments of control at its disposal, together with its liberal policy towards imports from soft currency areas, should be sufficient at least to keep inflation within reasonable bounds.

Main Lines of Development

20. The Bank has not yet had an opportunity of making a detailed examination of Australia's development plans or of the feasibility of achieving them on the desired scale in the aggregate or in particular fields. Their main lines, however, have been described by the Commonwealth Government representatives, and appear in general to be soundly conceived. The following paragraphs, therefore, surveying briefly the main lines of development, rely heavily on the representations of the Australian Government.

21. The pattern of development which the Commonwealth Government has in mind lays emphasis on the following sectors of economic activity:*

a) Housing and other building. Migration cannot continue as planned unless the rate of investment in houses and other buildings is greatly expanded. Allowing for housing demands of migrants and for working off present backlogs over a long period, a minimum long-run level of activity for the building industry would be at least 50% higher than the present annual rate of £A 175 million for gross investment in all construction including industrial buildings. This accounts for well over half the increase in aggregate investment contemplated in the program.

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* The sequence of headings is not to be taken as indicating any order of priority.

b) Mining. It is planned to raise domestic production of coal by 1953 from its present level of 15 million tons to 22.5 million tons, equivalent to total estimated requirements at that date. Development plans relate mainly to the rich deposits of New South Wales and include the rapid expansion of strip mining, the mechanization of existing underground mines and the opening of new mines, and the improvement of miners' working and living conditions. Apart from coal mining, a substantial expansion of Australian base metal output is also contemplated. Most of the principal groups, particularly Mt. Isa (lead and zinc), Mt. Morgan (copper and gold), Captain's Flat (various metals) and Mt. Lyell (copper) plan to modernize and extend their capital equipment.

c) Agriculture. Australian agriculture, although, broadly speaking, of the same type as that of the United States, is far behind American agriculture in the use of modern labor-saving machinery. As a result, agricultural output is scarcely keeping up with the increase in population or providing that expansion of exports of farm products upon which the continued prosperity of the country depends. The first need is for more equipment of various kinds to permit greater mechanization, more intensive cultivation and the adoption of up-to-date technology on existing farms. The second and longer-run need is to open up new areas for the production of beef, grain sorghum, tobacco and other products. This development depends largely on the construction of new roads, stock routes, watering places and minor dams, and on the availability of heavy crawler tractors for land-clearing operations.

d) Electric power generation. Although consumption of electricity has nearly doubled in the last ten years, a serious power shortage remains. Moreover, Australian policy aims to increase rural electrification. Ac-

cordingly, it is planned to increase installed generating capacity from the present level of about 2.1 million kilowatts to 5.6 million kilowatts in 1958. Most of the additional capacity in the next few years will be from steam generating stations, but progress will also be made on hydro-electric projects of a longer range character, which will produce electricity as a by-product of water conservation and irrigation.

e) Transport and communications. The improvement of transport is a vital part of Australia's development. Freight traffic has risen 50% and passenger traffic nearly 40% since 1938-39, with very little improvement in facilities. The growth of coal and agricultural output, which make up the bulk of rail freight traffic, will make very heavy demands in the next few years. The most urgent demands are for the Commonwealth and State railways, which are operating with inadequate and often over-age locomotives and other rolling stock, and are in some cases badly in need of regrading, double tracking and other improvements. Plans for rehabilitation and modernisation of railway facilities are estimated to include the purchase of nearly 900 locomotives and 16,000 wagons (about 20% of present stock) in the next five years, and to cost about the equivalent of $70 million per annum or nearly twice the recent rate of capital expenditure.

f) Manufacturing Industry. Since Australia is a private enterprise economy the course of events over the next five years can hardly be described in more than general terms, with illustrative examples of the broad trends in manufacturing industry. For the past two or three years the amount of investment in manufacturing as a whole has been constant or declining slightly. This trend is expected to continue, with investment decisions being made over a broad front largely by private enterprises responding

to the needs created by expanding population and incomes. Since Australian manufacturing capacity has expanded so rapidly in the past ten years, the Commonwealth Government attaches particular priority to further expansion only in the case of basic industries or if other special considerations apply. Among such special considerations are the ability of projects to earn or save dollars (e.g. vehicle assembly and manufacture), and the close connection with other desirable types of development (e.g. food processing and packaging). Most important is the expansion of the small but highly efficient and strategic iron and steel industry. In spite of a four-fold expansion since 1930, the industry's present annual capacity of 1.8 million tons of ingot steel is well below present requirements which are estimated at 2.9 million tons. Plans are now under way to raise pig iron capacity from 1.7 to 2.2 million tons a year, and total open hearth furnace capacity from 1.9 million to 2.4 million tons by 1953, with an ultimate aim of reaching nearly 3 million tons annual capacity.

Australia's Creditworthiness

Long-Term Over-all Balance of Payments Prospects

22. Australia's present overall balance of payments position is basically sound, and if development continues along economic lines, each expanding phase, when completed, should leave the country in a stronger position to service such foreign debt as has to be incurred in the development process.

23. That the present over-all balance of payments position is sound may be judged from the fact that since 1943 Australia has not only reduced her foreign debt substantially but has also amassed very large foreign exchange reserves.

She has achieved this despite the fact that imports have been swollen by wartime backlogs, the recent heavy immigration, and the dynamic course of her economic development. In the three years ending mid-1949 Australia's surplus on current account exceeded $240 million. It has only been because of the acceleration of imports for investment in 1949/50 that she has started to run a deficit.

24. Long-run prospects for primary products exports, which formed 95% of Australia's exports in 1949-50, seem good. World population and income are increasing; at the same time, there is a widespread movement out of primary production into secondary and tertiary activities. Hence, the emergence of chronic overproduction in basic commodities seems increasingly unlikely. As for shorter-range fluctuations in demand and prices, these will no doubt continue but the major attention being devoted by governments throughout the world to the maintenance of full employment encourages the hope that such a disastrous collapse of world commodity markets as occurred in the 'thirties will not recur. Australia's trade with the United Kingdom in meats, butter and cheese, dried fruits, eggs and sugar is coming to be stabilized more and more under long term contracts; under the International Wheat Agreement of 1949 Australia is assured of the sale of some two-thirds of the quantity of wheat exported by her in recent years at prices safeguarded against severe downward movements; the market for her non-ferrous metals is extremely buoyant, particularly for lead and zinc. In the case of wool, which accounted for 50% of the 1949-50 export income, world consumption has recently been running ahead of world production. The postwar accumulation of stocks amounting to a full year's clip has been largely worked off in the last five years, and recently expanded needs for defense programs are now creating a serious wool shortage. While there is undoubtedly a risk that revolutionary developments in synthetic fibers might seriously affect the future wool market, such developments have not so far prevented the continuous rise in world wool consumption. Finally, Australian exports to the non-dollar area, particularly

the sterling area, are essential to the successful elimination of the "dollar shortage"; especially because of the intensive search for non-dollar sources of supply, a strong world demand for Australian exports seems assured.

25. While the effect of the proposed development program on Australian output and on the balance of payments cannot be precisely estimated at the present time, it is clear that the increase in working population and the increase in productivity resulting from the program will substantially strengthen Australia' capacity to meet requirements in her export markets. At the same time the development program aims at broadening and diversifying Australia's capacity to meet the domestic consumption needs of an expanding population. Information provided by the Australian Government indicates that the import surplus necessary to carry through the intensive development activity contemplated for the next few years may well prove to be transitional. It is possible, of course, that even after the contemplated development of 1950-55 has been completed, further general economic expansion may prove desirable, involving continued resort to external resources to finance part of the development activity. However, there is no inherent reason to expect that external finance will be needed throughout the period of large-scale immigration, and, on favorable assumptions with respect to Australia's export markets, the process of development could become self-financing after a few years.

26. Allowing for these facts and the probability that the terms of trade wil not deteriorate seriously, it seems safe to say that the future over-all balance of payments position is very favorable. Furthermore, private capital inflow is likely to continue, even if on a reduced scale. Service of the present foreign debt of $1.22 billion, which is largely denominated in sterling, should, therefore present no serious difficulties. However, since the debt now proposed to be incurred is in dollars, it is necessary to consider in more detail the currency distribution of Australia's balance of payments and in particular her capacity to meet debt service in dollars.

Australia's Dollar Position

27. Examination of Australia's bilateral position vis-a-vis the dollar area shows that, over the long period, she will probably earn sufficient dollars not only to cover essential current dollar expenditures and amortize her dollar debt but also - if the need should arise - to become a net contributor to the sterling area dollar reserves. There is, however, the problem of meeting a pronounced peak of dollar maturities totalling $122 million in the three years 1955-57. If market conditions permit, these maturities, as in the past, would at least in part be refinanced. If market conditions prove unfavorable it seems likely that, with or without general convertibility of sterling, Australia will be able to meet these commitments from her own or the sterling area's gold and dollar reserves.

28. Australia's present dollar position is shown clearly in her 1949-50 dollar balance of payments. The July 1949 agreement with the U.K. to reduce Australian dollar imports by 25%, though implemented at the import licensing stage, was not fully reflected in dollar expenditures in 1949-50. It was therefore necessary, in addition to drawing $10-15 million from the sterling area dollar reserves (compared with $73 million in 1948-49), to draw on the IMF to the extent of $20 million. The full effect of the agreed cut in dollar imports will be to reduce imports (f.o.b.) from the 1949-50 level of about $170 million to $142 million, a further cut of $28 million. If, therefore, Australia's dollar earnings are maintained, and additional dollar investment imports are financed by borrowing, her net drawings on the sterling area dollar reserves will be small. If her dollar earnings increase substantially, she may even become a net contributor to the central reserves.

29. Prospects for Australia's dollar exports, the bulk of which go to the United States and Canada, would be promising, even if the stimulus given by the

re-armament program were not taken into account. Wool sales to the U.S.A. and Canada amounted to .98 million in 1949-50. U.S. domestic production has been declining rapidly. On the other hand, U.S. wool consumption may be expected to rise with the increase in the U.S. population and the improvement in its standard of living. Competition from synthetic fibers may restrict this expansion but Australian wool, being of the finer grades, is least vulnerable to this threat. Australian wool exports to the U.S., which account for two-fifths of total U.S. wool imports, can therefore be expected to rise appreciably if high levels of U.S. business activity are maintained. Australian beef, lamb, butter and non-ferrous metals are at present competitive in the N. American market but they are now sold almost exclusively to the U.K. There is little incentive to divert existing production from the U.K. to N. America since no net gain in dollars would accrue to the sterling area. However, part of the future increase in production of some of these products may well be directed to increasing dollar exports. There are also some prospects of expanding exports to N. America in specialized lines such as tuna-fish, crayfish tails and some manufactures.

30. Australia's present level of dollar imports of just over 140 million (f.o.b.) could be reduced after the next five years without adverse effects on the Australian economy. Taking into account increasing availability of supplies in the non-dollar area and the import savings which will attend development of home production, and even assuming continued immigration at the present level of 200,000 per annum, the Australian Government believes that all the dollar capital equipment required for development from 1955 to 1960 could be accommodated within a total dollar import budget substantially smaller than the present one. If the need arose, additional economies could be realized by cutting the volume of dollar imports for further development.

31. Allowing for the present net deficit on account of invisibles and for service on contemplated additional dollar debt, Australia should have little difficulty in balancing her dollar accounts after 1955, particularly since some net private dollar capital movement into Australia will probably continue. Indeed, it appears that, if necessary, she could, without undue sacrifices, develop a significant dollar surplus, especially if allowance is made for the expected increase above present levels in her dollar exports. Given high levels of business activity in N. America, therefore, Australia should not find it unduly burdensome to service a dollar debt considerably greater than her present $214 million.

32. There remains, however, the problem of meeting dollar capital payments which fall due in the years 1955-57:

	$ million
1955	73.7
1956	20.1
1957	28.3
Total	122.1

While her dollar balance of payments prospects indicate that Australia might conceivably develop a surplus sufficient to meet the maturities of 1956 and 1957, the 1955 maturities will clearly present a problem. The most obvious step, in view of the sound long-term dollar position, is to refinance some of the debt falling due for repayment in 1955-57 in the market. Although this would scarcely be possible under present conditions it may not prove so difficult in five years' time. In the event, however, that refinancing is still not feasible, Australia must look to her own gold and dollar reserves or to those of the sterling area to repay a large part of the debt falling due.

33. As regards her own reserves, Australia already has $90 million in gold. There is nothing to prevent her supplementing this from her own gold production

between now and 1955 though clearly, unless there arose grave doubts concerning the ability of the sterling area to meet Australia's dollar needs in the future, the same object would be achieved if Australia continued to sell the gold to the U.K. and so strengthen the central reserves of the whole area. Indeed, it would seem more reasonable to expect that Australia would obtain from these central reserves the dollars needed to meet her commitments. She has officially pledged herself to give priority in the disposition of her exchange reserves to service of external public debt and, in accordance with past practice, would expect to be able to buy the needed dollars against sterling under the terms of her general understanding with the U.K. The U.K., for its part, has a strong interest in maintaining the credit of a member of the sterling area such as Australia, which not only has substantial dollar exports but provides goods for the other members of a type which protects the dollar position of the area as a whole. It is reasonable to expect, therefore, that the U.K. would make every effort to provide the relatively small sums required out of the sterling area's dollar reserves, which now total $2.4 billion, and thus enable Australia to maintain her excellent debt record.

34. In view of the intimate financial relations between Australia and the sterling area, and the importance of the area's future central reserves to a judgement on Australia's creditworthiness, it is important to point out that the proposed development program will not only make a contribution to Australia's own dollar balance of payments position but also significantly strengthen the dollar position of the whole sterling area by creating additional non-dollar sources of dollar goods.

APPENDIX I

LIST OF EXTERNAL DEBT OF AUSTRALIA, DECEMBER 31, 1949

(In thousands)

Item	Amount outstanding: In currency of payment	Amount outstanding: Expressed in U.S. dollars
Dollar bonds		
Australia 5%, 1925-1955	$ 71,728	71,728
Australia 3 1/4%, 1946-1956	$ 19,471	19,471
Australia 3 1/2%, 1946-1966	$ 24,405	24,405
Australia 3 3/8%, 1947-1962	$ 43,808	43,808
Australia 3 1/4%, 1947-1957	$ 18,630	18,630
Australia 3 1/2%, 1947-1967	$ 18,669	18,669
Sydney County Council 3 1/2%, 1947-1957	$ 8,221	8,221
Metropolitan Water, Sewerage and Drainage Board (Sydney) 5 1/2%, 1930-1950 1/	$ 5,905	5,905
City of Brisbane 5%, 1927-1957	$ 4,556	4,556
City of Brisbane 5%, 1928-1958	$ 4,770	4,770
City of Brisbane 6%, 1930-1950 2/	$ 3,272	3,272
Total dollar bonds	$ 223,435	223,435
Sterling bonds		
Australia 2 3/4%, 1946-1967-71	£ 16,075	44,991
Australia 3%, 1936-1955-8	£ 20,141	56,371
Australia 3%, 1945-1958-60	£ 14,055	39,337
Australia 3%, 1948-1963-5	£ 12,871	36,023
Australia 3%, 1948-1964-6	£ 10,000	27,988
Australia 3%, 1948-1965-7	£ 15,000	41,982
Australia 3%, 1949-1972-4	£ 12,985	36,342
Australia 3%, 1949-1975-7	£ 15,000	41,982
Australia 3 1/4%, 1934-1964-74	£ 13,933	38,996
Australia 3 1/4%, 1935-1956-61	£ 20,754	58,086
Australia 3 1/4%, 1945-1965-9	£ 59,890	167,620
Australia 3 1/2%, 1934-1954-9	£ 21,084	59,010
Australia 3 1/2%, 1937-1950-2	£ 11,790	32,998
Australia 3 1/2%, 1937-1951-4	£ 10,796	30,216
Australia 3 1/2%, 1941-1961-6	£ 29,962	83,858
Australia 3 3/4%, 1938-1952-6	£ 6,951	19,454
Australia 4%, 1933-1955-70	£ 11,546	32,315
Australia 4%, 1939-1961-4	£ 5,775	16,163
Australia 2 1/2%, 1947-1970-5	£ 18,516	51,823
New South Wales 3 1/2%, 1906-10/1930-50 3/	£ 11,707	32,766
Queensland 3 1/2%, 1911-1950-70 3/	£ 1,921	5,376
South Australia 3%, 1897-1900/1916 or after 3/	£ 2,397	6,709
Western Australia 3 1/2%, 1909-11/1935-55 3/	£ 3,205	8,970
City of Sydney 4%, 1943-1961-3	£ 812	2,273
City of Sydney 5 1/4%, 1927-1953	£ 2,000	5,598
City of Sydney 5 1/4%, 1928-1954	£ 2,000	5,598
Sydney County Council 4%, 1936-1956	£ 2,000	5,598
Metropolitan Water, Sewerage and Drainage Board (Sydney) 4%, 1937-1957	£ 2,000	5,598
City of Brisbane 5%, 1928-1950-60	£ 959	2,684

See footnotes at end of table.

LIST OF EXTERNAL DEBT OF AUSTRALIA, DECEMBER 31, 1949 - Continued

(In thousands)

Item	Amount outstanding: In currency of payment	Amount outstanding: Expressed in U.S. dollars
Sterling bonds - Continued		
Melbourne and Metropolitan Board of Works 3 3/4%, 1937-1960	£ 724	2,026
Melbourne and Metropolitan Board of Works 5%, 1929-1954	£ 2,000	5,598
City of Perth 5%, 1925-1950	£ 175	490
State Electricity Commission of Victoria 3 1/2%, 1954	£ 847	2,371
Southern Australia Electricity Trust 4%, 1951	£ 203	568
Launceston Corporation 5%, 1926-1952	£ 100	280
Launceston Corporation 5%, 1928-1953	£ 100	280
Total sterling bonds	£ 360,274	1,008,338
Total debt		1,231,773

1/ This bond was redeemed in full on maturity on 4/1/50.
2/ This bond was redeemed in full on maturity on 6/1/50.
3/ Assumed by the Commonwealth Government.

Note: There are also the following which are payable in Australian pounds:

Lend-lease (no interest)	$8,826,938
Surplus property (no interest)	6,324,075

and the following short term sterling debt held by the Commonwealth Bank of Australia:

2% Debentures	£2,491,000
2¼% Treasury Bills	£21,847,000

APPENDIX II

ESTIMATED INTEREST AND CAPITAL PAYMENTS ON THE EXTERNAL DEBT OF AUSTRALIA, 1950-1974

(Expressed in thousands of U.S. dollars)

Year	U.S. dollars				Sterling				Grand total			
	Amount outstanding	Payments			Amount outstanding	Payments			Amount outstanding	Payments		
		Capital	Interest	Total		Capital	Interest	Total		Capital	Interest	Total
1950	214,258	1,858	8,547	10,405	1,008,338	33,256	33,045	66,301	1,222,596	35,114	41,592	76,706
1951	212,400	1,887	8,477	10,364	975,082	568	31,873	32,441	1,187,482	2,455	40,350	42,805
1952	210,513	1,915	8,403	10,318	974,514	33,278	31,850	65,128	1,185,027	35,193	40,253	75,446
1953	208,598	1,945	8,331	10,276	941,236	5,878	30,681	36,559	1,149,834	7,823	39,012	46,835
1954	206,653	1,975	8,257	10,232	935,358	43,783	30,373	74,156	1,142,011	45,758	38,630	84,388
1955	204,678	73,736	8,180	81,916	891,575	8,970	28,658	37,628	1,096,253	82,706	36,838	119,544
1956	130,932	20,113	4,519	24,632	882,605	25,052	28,344	53,396	1,013,537	45,165	32,863	78,028
1957	110,819	28,348	3,507	31,855	857,553	5,598	27,390	32,988	968,372	33,946	30,897	64,843
1958	82,471	3,599	2,802	6,401	851,955	56,371	27,166	83,537	934,426	59.970	29,968	89,938
1959	78,872	890	2,704	3,594	795,584	59,010	25,475	84,485	874,456	59,900	28,179	88,079
1960	77,982	890	2,672	3,562	736,574	44,047	23,410	67,457	814,556	44,937	26,082	71,019
1961	77,092	890	2,642	3,532	692,527	58,086	22,020	80,106	769,619	58,976	24,662	83,638
1962	76,202	38,848	1,967	40,815	634,441	-	20,132	20,132	710,643	38,848	22,099	60,947
1963	37,354	440	1,303	1,743	634,441	2,273	20,132	22,405	671,795	2,713	21,435	24,148
1964	36,914	440	1,288	1,728	632,168	16,163	20,041	36,204	669,082	16,603	21,329	37,932
1965	36,474	440	1,272	1,712	616,005	36,023	19,394	55,417	652,479	36,463	20,666	57,129
1966	36,034	20,595	1,258	21,853	579,982	111,846	18,313	130,159	616,016	132,441	19,571	152,012
1967	15,439	15,439	270	15,709	468,136	41,982	14,538	56,520	483,575	57,421	14,808	72,229
1968	-	-	-	-	426,154	-	13,279	13,279	426,154	-	13,279	13,279
1969	-	-	-	-	426,154	167,620	13,279	180,899	426,154	167,620	13,279	180,899
1970	-	-	-	-	258,534	37,691	7,831	45,522	258,534	37,691	7,831	45,522
1971	-	-	-	-	220,843	44,991	6,350	51,341	220,843	44,991	6,350	51,341
1972	-	-	-	-	175,852	-	5,113	5,113	175,852	-	5,113	5,113
1973	-	-	-	-	175,852	-	5,113	5,113	175,852	-	5,113	5,113
1974	-	-	-	-	175,852	75,338	5,113	80,451	175,852	75,338	5,113	80,451

(DRAFT)

RESOLUTION NO. _____

Approval of recommendations of the President that the Bank grant a loan to the Commonwealth of Australia in the amount of $100,000,000; authorization to President or Vice President or Loan Director or Assistant Loan Director or Treasurer or Assistant Treasurer to execute Loan Agreement and other documents relating thereto.

RESOLVED:

1. THAT the Executive Directors hereby approve the recommendations of the President, dated August 18, 1950, that the Bank grant a loan to the Commonwealth of Australia in the principal amount of $100,000,000 (or the equivalent thereof in currencies other than dollars) maturing on or prior to September 1, 1975, in accordance with the amortization table set forth in Schedule 1 to the form of Loan Agreement between the Commonwealth of Australia and the Bank which was attached to the recommendations of the President to the Executive Directors, with interest (including commission), and commitment charge at the rates specified in said form of Loan Agreement, and upon such other terms and conditions as are contained in said form of Loan Agreement;

2. THAT the rate of commission to be charged in connection with said loan shall be 1% per annum of the principal amount of said loan from time to time outstanding; that said commission shall be included as part of the interest and service charge on said loan and shall be payable semi-annually on the dates for the payment of said interest and service charge; and that the amount of said commission so paid to the Bank shall be set aside in the special reserve as provided in Section 6 of Article IV of the Articles of Agreement of the Bank;

3. THAT the form, terms and conditions of the said form of Loan Agreement be, and they hereby are, approved; and

4. THAT the President or the Vice President or the Loan Director or the Assistant Loan Director or the Treasurer or the Assistant Treasurer of the Bank be, and each of them hereby is, authorized in the name and on behalf of the Bank (a) to execute with the Commonwealth of Australia and to deliver a loan agreement substantially in the form of the said form of Loan Agreement presented to the Executive Directors, with such changes therein as they or any of them shall approve, the execution of said loan agreement by any of said officers to be conclusive evidence of his approval of any such changes; and (b) to take any and all such other action and execute and deliver any and all such other documents as they or any of them shall deem necessary or proper in the premises and in order to carry fully into effect the purposes of this Resolution.